BENTON P·U·D

April 25, 2006

Via Electronic and U.S. Mail

Paul Norman
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Bonneville Power Administration
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Re: Comments on BPA's Power Function Review II Draft Closeout Report

Dear Mr. Norman:

Thank you for providing the opportunity to comment on the Power Function Review (PFR II). The PBL staff and leadership are to be commended for the professionalism displayed during this process and the timely provision of information at the workshops and prompt follow-up afterwards. In addition to commenting, we strongly encourage BPA to undertake a sustainable capital dialogue with the region that would address capital investments in both business lines and the plan for funding these capital investments.

We support the PFR II comments of PPC and would like to emphasize the following:

Conservation/Fish & Wildlife Amortization Period. We have reviewed BPA's February 8, 2006 Power Function Review II presentation (pages 22-33) pertaining to accounting policies and standards related to the amortization period of 1) conservation acquisition investments, and 2) fish & wildlife program investments (non Corps of Engineers or Bureau of Reclamation facilities). Throughout the presentation, there are several references pertaining to SFAS 71, Accounting for the Effects of Certain Types of Regulation.

We agree that SFAS 71 provides the basis under which BPA may capitalize costs related to these programs to the extent that regulation provides assurance that incurred costs will be recovered in the future; however, we do not see SFAS 71 as a limiting factor in the determination of amortization periods for these programs. Rather, we believe that the determination of amortization periods is an accounting policy decision that should be based on the asset benefit period (to the extent that there is assurance that incurred costs will be recovered in the future).

We noted that the presentation references other documents that provide substantial authoritative support such as Emerging Issues Task Force's consensus summaries and discussion issues, and the AICPA's Accounting Standards Executive Committee (AcSEC) Practice Bulletins. To the degree that BPA has reason to believe that SFAS 71 or other

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secondary accounting sources provide guidance that would specifically limit the amortization periods for these programs, we would appreciate BPA providing specific references within the authoritative literature.

Unless BPA is able to provide these specific references, we recommend BPA base the amortization period for conservation and fish and wildlife facilities on their useful lives and not the shorter periods currently suggested in the Power Function Review II.

Columbia Generating Station (CGS). ENW is to be commended for successfully finding innovative ways to offset the cost of the additional O&M and capital requirements identified in PFR II.

During the CGS presentation on March 8, Scott Oxenford, VP Technical Services, Energy Northwest, acknowledged that the additional O&M and capital expenditures will improve CGS performance and are expected to increase capacity factor and plant availability of CGS. During the Q&A that followed, customers requested and BPA staff agreed to consider increasing the forecasted output of 1,000 aMW for CGS in non-maintenance months to 1,030 aMW (average of the last several years) reflecting the increases in O&M expenditures. We strongly recommend that BPA reflect this change in the final rate proposal.

Internal Operations Charged to Power and EPIP Savings. BPA estimates that PBL savings from EPIP in the $11 million to $12 million annual range should be achievable over time, but not by FY 2007. Setting budgets at this level will be a stretch goal, but we are confident the BPA program managers will respond by finding innovative methods to meet this target. We continue to feel that the corporate side of the business needs to find ways to reduce costs beyond those currently identified. We recommend that BPA include additional savings of $4 Million/year to the PFR I reductions of $8 Million/year and that a total of $12 Million/year for EPIP savings be included in BPA's Final Proposal.

Renewables Program. We support the removal of the Geothermal project from all three years of the PFR II budgets. We concur with the proposed approach of not increasing the budgets for facilitation at this time, and we support BPA's proposal that "If these expected amounts later appear to be insufficient for needed facilitation efforts, BPA will then consult with interested parties on the matter and will increase spending up to the cap if necessary."

DSI Subsidy. We agree with PPC's comments that subsidy payments to the DSI's be limited to $40 million/year. We further recommend that the subsidies be phased out by FY 2011.

Very truly yours,

James W. Sanders

James W. Sanders
General Manager